

Message Text

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14

ACTION EB-07

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H-02 INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02

SS-15 USIA-06 AID-05 CIEP-01 TRSE-00 STR-04 OMB-01

CEA-01 COME-00 FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01

OPR-02 SCS-03 DHA-02 CU-02 SCCT-01 IO-10 SAM-01 SAB-01

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TO SECSTATE WASHDC 7260

INFO AMEMBASSY ABU DHABI

AMEMBASSY AMMAN

AMEMBASSY ATHENS

AMEMBASSY CAIRO

AMEMBASSY DAMASCUS

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY TEHRAN

AMEMBASSY SANA

AMEMBASSY LONDON

AMEMBASSY MUSCAT

AMEMBASSY MANAMA

AMCONSUL DHAHRAN

USINT BAGHDAD

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DEPARTMENT PASS CAGNE

E.O. 11652: N/A

TAGS: LE, EIND, ETRD, BEXP

SUBJECT: COMMERCIAL OUTLOOK AFTER THE FOURTH ROUND

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REF: BEIRUT 11973 AND 12539

BEGIN SUMMARY: THE FOURTH ROUND OF INTER-FACTIONAL FIGHTING IN LEBANON HAS RESULTED IN BROAD DAMAGE TO THE COMMERCIAL SECTOR, BOTH TO PHYSICAL FACILITIES AND TO ITS SENSE OF CONFIDENCE FOR THE FUTURE. AS A RESULT, WE LOOK FOR A DECLINE IN THE PRIVATE SECTOR'S WILLINGNESS TO INVEST IN NEW STOCKS AND INDUSTRIAL PLANT. AT THE SAME TIME, IT MAY BE THAT THE PUBLIC SECTOR WILL BE FORCED TO MOVE AHEAD MORE VIGOROUSLY WITH LONG-DELAYED INFRA-STRUCTURAL PROJECTS TO IMPROVE LIVING STANDARDS. THE RESULT IS THAT U.S. SUPPLIERS WILL FIND LEBANON TO BE A DEPRESSED MARKET FOR AT LEAST THE SHORT TERM BUT WITH SOME BUSINESS OPPORTUNITIES ARISING FROM MAJOR PROJECTS. LEBANON'S POSITION AS A REGIONAL BUSINESS CENTER SHOULD REMAIN SIGNIFICANT BUT WITH A YET-UNDETERMINED DIMINUTION OF RESIDENT OFFICES OF AMERICAN FIRMS. END SUMMARY

1. A SIGNIFICANT, AND IN MANY WAYS SOBERING, FEATURE OF THE FOURTH ROUND OF FIGHTING, WHICH NOW SEEMS TO BE ENDING, IS THE WIDESPREAD PHYSICAL DAMAGE SUFFERED BY THE COMMERCIAL SECTOR. ACCORDING TO CHAMBER OF COMMERCE ESTIMATES, ADMITTEDLY PRELIMINARY AT BEST, ABOUT 3450 RETAIL ESTABLISHMENTS WERE DESTROYED OR DAMAGED (SEE BEIRUT 13198). MOREOVER, MANY FACTORIES WERE DYNAMITED. THIS IS IN CONTRAST TO EARLIER ROUNDS OF FIGHTING WHERE DAMAGE WAS MUCH LESS AND ATTRIBUTABLE TO ACTIONS BY PERSONS OR PARTIES UNSYMPATHETIC TO POLITICAL OR RELIGIOUS PERSUASION OF THE OWNER. IN ROUND FOUR A NEW ELEMENT WAS INTRODUCED AS ENTIRE BLOCKS IN THE COMMERCIAL AND BANKING AREAS E.G. BORJ, SOUK TAWILI, SOUK SURSOCK, SOUK AYASS, KANTARI, ETC. WERE IN THE MAINSTREAM OF FIGHTING. WHEREAS DAMAGE WAS PREVIOUSLY ADMINISTERED SELECTIVELY, NOW A FLAVOR OF "BURN, BABY, BURN" PREVAILS.

2. IN VIEW OF THE FOREGOING, THE LEBANESE PRIVATE BUSINESS SECTOR HAS SUFFERED A SHARP BLOW NOT ONLY TO ITS CAPITAL RESOURCES BUT TO ITS CONFIDENCE IN THE FUTURE. LIMITED OFFICIAL USE

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FACED WITH THE DIM PROSPECT OF ECONOMIC LOSS AND A RISING LEFT WING FACTION, ENTREPRENEURS WHO PRIDED THEMSELVES AS BEING THE BACKBONE OF LEBANON'S ECONOMIC PROSPERITY ARE REFLECTING ON THEIR FUTURE ROLE. EVEN THOSE MERCHANTS AND INDUSTRIALISTS WHO EXPERIENCED NO OR LITTLE ECONOMIC LOSS ARE ASKING WHETHER VOLATILE LEBANESE SOCIETY IS FIRM ENOUGH ON WHICH TO INVEST A LIVELIHOOD. MORE THAN ONE MERCHANT HAS EXPRESSED AN

INTENTION OR AT LEAST DESIRE TO SWITCH PERSON AND CAPITAL TO ANOTHER COUNTRY, E.G., SAUDI ARABIA, GREECE, CANADA. WHILE THIS RUEFUL FEELING MAY SUBSIDE, IF AND WHEN THE COUNTRY SETTLES INTO MORE NORMAL TEMPO, IT APPEARS THAT LEBANON'S PRIVATE SECTOR HAS EXPERIENCED A PAINFUL WRENCH. EVEN SEVERAL DAYS AFTER THE LATEST CEASE-FIRE, AT LEAST 50 PER ENT OF COMMERCIAL ESTABLISHMENTS REMAIN AT LEAST PARTIALLY CLOSED WITH DOORS FREQUENTLY OPEN FOR THE REMOVAL OF GOODS TO SAFEKEEPING AS WELL AS FOR NORMAL TRADE.

3. WHILE THE PRIVATE SECTOR MAY DECLINE IN IMPORTANTCE AND VIGOR, THE SOMNOLENT AND SLOW-MOVING PUBLIC SECTOR MIGHT BE PUSHED INTO ACTION TO IMPROVE LIVING STANDARDS BY LONG-DELAYED AND OFT-PROMISED PROJECTS FOR HOUSING, ROADS, PUBLIC HEALTH, ELECTRIC POWER, SCHOOLS, WATER SUPPLY AND SANITATION, IRRIGATION, ETC. WHILE WE DO NOT ENVISAGE A BASICALLY GOVERNMENT-DIRECTED ECONOMY, THE COUNTRY'S LEADERS WILL OBVIOUSLY HAVE TO CONSIDER HOW TO SATISFY THE INCREASING VOCAL AND ORGANIZED DEMANDS OF THE ECONOMICALLY DISADVANTAGED TO PARTICIPATE IN THE EUROPEAN-STYLE STANDARD OF LIVING THAT MANY OF THE COUNTRY'S ELITE ENJOY. RISING UNEMPLOYMENT, A CONCOMITANT OF THE WAR-DAMAGED ECONOMY, WILL EXACERBATE THESE DEMANDS.

4. AS TO THE OUTLOOK FOR U.S. BUSINESS IN LEBANON, WE LOOK FOR THE PREVAILING PESSIMISM OF THE MERCANTILE SECTOR TO BE REFLECTED IN A FALLOFF IN PURCHAASE OF NEW FACILITIES AND STOCKS AND IN THE INDUSTRIAL SECTOR BY A SLOWDOWN IN ESTABLISHING NEW INDUSTRIAL PLANT OR REFURBISHING THE OLD. THUS, U.S. SUPPLIERS MAY FIND LEBANON A DEPRESSED MARKET FOR AT LEAST THE SHORT LIMITED OFFICIAL USE

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RUN. INDEED, MEA IS MOVING TOD DISPOSE OF THE TWO 747'S DELIVERED ONLY A FEW MONTHS AGO. THIS MAY BE OFFSET SOMEWHAT SHOULD THE GOVERNMENT VIGOROUSLY MOVED AHEAD WITH PUBLIC-SECTOR PROJECTS WITH CONCOMITANT OPPORTUNITIES FOR U.S. ENGINEERS AND CONSTRUCTORS. HOWEVER, THE LAG FROMDISCUSSION TO IMPLEMENTATION IS APT TO BE LENGTHY.

5. AS TO THE RESIDENT AMERICAN BUSINESS COMMUNITY,THE MOST ADVERSE DAMAGE TO BEIRUT'S POSITION AS A REGIONAL BUSINESS CENTER CAME AS THE MOST INTENSE FIGHTING MOVED TO THE HITHERTO SAFE HOTEL AREA WITH THE HOLIDAY INN, PHOENICIA, AND ST. GEORGES REPRESENTING PRIZES OF WAR. THE AMERICAN BUSINESSMAN WHO HAD HOPED TO WORK AROUND A BATTLE TAKING PLACE IN PREDOMINANTLY

NATIVE LEBANESE AREAS FOUND THE BATTLE HAD MOVED INTO THE NEIGHBORHOOD WHERE HE LIVES AND WORKS, AND WHERE VISITORS LODGE. AFFECTED BY THE STREET FIGHTING WERE SUCH IMPORTANT EXPATRIATE BUSINESS AREAS AS ST. CHARLES CENTER, GEFINOR CENTER, STARCO AND CLEMENCEAU ST. THE HARDY EXPATRIATES WHO HAD NOT EVACUATED EARLIER WERE ORDERED OUT BY THEIR COMPANIES E.G. PHILLIPS PETROLEUM, WRIGLEY, GE, INTERNATIONAL HARVESTER, AND/OR LEFT AS PUBLIC SAFETY RECEDED TO AN UNACCEPTABLY LOW LEVEL E.G. HILTON, NORTH AMERICAN VAN LINES, BANK OF AMERICA, CITIBANK, SANTA FE DRILLING. MOST EXPATRIATES WITH FEW EXCEPTIONS ARE CURRENTLY OUT OF LEBANON WITH MANAGEMENT ROLES CURRENTLY IN THE HANDS OF LEBANESE EXECUTIVE STAFF ACTING AS CARETAKERS.

6. ALTHOUGH WE EXPECT, WHEN AND IF CALM RETURNS, THAT BEIRUT WILL REMAIN AN IMPORTANT BUSINESS CENTER, IT SEEMS CERTAIN THAT A DIMINUTION OF THAT ROLE IS IN STORE IN TWO WAYS: (1) POTENTIAL EXODUS OF REGIONAL OPERATIONS OF COMPANIES, E.G., GENERAL MOTORS, CHICAGO BRIDGE, CARRIER, GE, MCDONNELL-DOUGLAS, BOEING, SHERATON, CHRISTIANSEN DIAMOND, AND (2) A REDUCTION OF EXPATRIATE STAFF AND/OR CANCELLATION OF EXPANSION E.G., FMC, BARBER-GREEN, PHILLIPS PETROLEUM, ABBOTT LABS, LOCKHEED, FIRST NATIONAL BANK OF CHICAGO, IBM, AMERICAN LIFE, PANAM, AMPEX, GOODYEAR, KODAK. GRAPHIC EXAMPLE OF LIMITED OFFICIAL USE

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RESULT OF FIGHTING WAS DECISION BY NEWLY -ARRIVED MANAGER OF CARRIER TO MOVE OFFICE TO ATHENS AS SOON AS POSSIBLE. ALTHOUGH MANAGER IS VETERAN OF SEVERAL SOUTH AMERICAN COUPS, RING-SIDE VIEW OF FIGHTING FROM PHOENICIA WHERE HE WAS RESIDENT APPARENTLY SPEEDED HIS RESOLVE TO DEPART. EXPECTED DIMINUTION PARTICULARLY STRIKING IN VIEW 30 PERCENT INCREASE IN AMERICAN BUSINESS COMMUNITY IN YEAR PRECEDING ONSET OF TROUBLES.

7. IN SUM, SIGNS ARE MIXED BUT SOME CROSSROADS IN LEBANON'S COMMERCIAL LIFE ARE BEING APPROACHED AND OTHERS MAY HAVE BEEN PASSED.
GODLEY

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